



Plante & Moran, PLLC
Suite 120
511 Renaissance Drive
St. Joseph, MI 49085
Tel: 269.982.8000
Fax: 269.982.2800
plantemoran.com

To the City Commission
City of Coloma, Michigan
119 N. Paw Paw Street
Coloma, Michigan 49038

In planning and performing our audit of the financial statements of the City of Coloma for the year ended March 31, 2004, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

SEGREGATION OF DUTIES

We commend the City's responsiveness to our internal control recommendations. We noted that during fiscal 2004, the City Commission Finance Committee began reviewing and approving the water/sewer billing adjustments on a monthly basis. However, to continue to strengthen internal controls, we recommend that all bank reconciliations be individually reviewed by someone other than the preparer. For example, we noted a few months of the Trust & Agency Fund bank reconciliation missing outstanding check lists, which are a vital part of preparing an accurate reconciliation. In addition, this is a standard internal control that should be followed at all organizations to maintain proper control over cash.

In addition, there appears to be no segregation of duties in recording journal entries. One employee is authorized to initiate and enter journal entries. These entries are not approved or reviewed by any City employee or Commissioner. We did note that the General Fund and the Trust & Agency Fund were both slightly out-of-balance at the end of the year. We strongly urge the City to implement an authorization and/or review process for all general journal entries.



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FINANCIAL OVERVIEW

During the year ended March 31, 2004, the City's General Fund's fund balance decreased significantly as the General Fund's expenditures and transfers exceeded revenues by approximately \$464,000. However, this was due in large part to the transfer of designated funds to create a new special revenue fund. Without this transfer, expenditures would have exceeded revenue by approximately \$16,000.

The Major Street Fund experienced an operating gain in the current year of approximately \$30,600. The gain was a result of increased revenue and decreased expenditures. Act 51 revenue was approximately \$4,000 higher in the current year than the previous year. In addition, other revenue increased approximately \$2,100 from 2003 to 2004. Expenditures decreased from prior year by approximately \$62,000. The Major Street Fund did not require an operating transfer from the General Fund, as in prior years. We continue to recommend that the City take a close look at available funds when scheduling construction projects. In addition, the Major and Local Street Funds could be funded with subsidies from the DDA Fund if projects fall within the DDA boundaries.

The Water/Sewer Fund incurred an operating gain of approximately \$11,400 for fiscal 2004. Sewer and Water charge revenues decreased approximately \$10,500 during the year. However, the City earned \$21,875 from the Township under the new water/sewer maintenance agreement. In response to the agreement, water/sewer maintenance expenditures increased approximately \$14,700. We recommend that the City track maintenance expenditures closely, so that they do not increase beyond the revenue being provided by the Township.

STATE SHARED REVENUE AND BUDGETING

Municipalities in Michigan have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for approximately 25% of the City's total General Fund revenue for the fiscal year ended March 31, 2004. Slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions.

While it is generally acknowledged that the State's budget woes will continue for several more years, we urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

INTERFUNDS

We continue to recommend that the City "clean up" the interfund liabilities. At March 31, 2004, the City had numerous interfund liabilities recorded. These liabilities have been recorded throughout the past several years at times when one fund had to borrow money from another fund. These liabilities were incurred with the intention to repay in the near future. If these borrowings are not going to be repaid within a short period of time, the City should establish formal notes payable between the funds and begin charging interest. An alternative to this treatment would be to repay this money soon. With the use of the common bank account, it would simply involve changing the current allocation of cash and making proper entries to the general ledger. We would be happy to assist the accounting department in recording these transactions.

ELECTRONIC FILE BACKUP

The City has a policy of backing up network files on a daily basis and storing the backup in a fireproof safe. While this is a good practice, the procedure could be further enhanced by keeping copies of these back-ups at an off-site location. Under current scenarios, if a catastrophe were to occur at City Hall, not only would the computer hardware with software be destroyed, likewise, the back-up files potentially could be destroyed or unattainable. Storing a back-up copy off-site would allow the City to restore files and retrieve information quickly.

LEONARD FUND

During 2003, a special revenue fund was established for the Leonard funds. However, no budget was prepared for the Leonard Fund for the year ended March 31, 2004. We would like to remind the City Commission that a budget is required for all special revenue funds.

NEW REPORTING MODEL – GASB 34

The City will need to implement this new reporting model for the year beginning April 1, 2004. An implementation timeline should be established. We will continue to keep the Commission and key members of the City's staff up-to-date regarding this pronouncement and assist any way possible to ensure a smooth transition.

CREDIT CARDS

The City continues to have two credit cards that are not being used. However, there is no Commission approved credit card policy in place, which is required by the State of Michigan. We recommend the City approve a policy, which specifically outline the guidelines. We would be happy to provide a sample policy.

PROPERTY TAXES

We again noted instances where the City was delinquent in distributing taxes collected on behalf of other taxing units. As you know, Michigan statute establishes guidelines for the timing of distributions of these taxes. It is imperative that a City official be assigned the responsibility of ensuring that the City complies with these requirements.

ELECTRONIC TRANSFERS

There was a new bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transactions." Beginning immediately, a local unit's governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe the goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

ELECTRONIC TRANSFERS (Continued)

The City does use electronic transfers to submit payroll taxes. Therefore, it is required that the City Commission adopt a policy for these transactions. We would be happy to provide a sample resolution.

COMPENSATED ABSENCE REQUEST FORMS

The City does not require a compensated absence request form to be filled out by employees and approved for vacation and sick time. We recommend that this requirement be implemented to avoid confusion and maintain a more comprehensive history of compensated absences.

NEW QUALIFYING STATEMENT

As you may be aware, the Municipal Finance Act was amended during 2001. The City is now required to submit an annual filing with the Michigan Department of Treasury if a debt issue is planned during a fiscal year. This filing will serve as a pre-approval for the debt issuances. These filings are due within 6 months of year-end (September 30, 2004) and are good through the extended due date of the next financial statement filing (i.e., September 30, 2005).

The State is expecting the qualifying statement to be submitted on-line. The old ten-day "exemption from prior approval," process has been eliminated and is replaced with this Qualification process. Personal Identification Numbers (PINS) will be issued to each community to allow them access to the form.

JOINT VENTURE DEBT

During fiscal 2003, the City entered into an installment purchase contract to purchase a Fire Rescue vehicle on behalf of the Coloma Joint Fire Board. There is a verbal agreement for the Fire Board to reimburse the City for these payments. However, there is not a written agreement documenting these intentions. We recommend the City obtain a signed agreement in order to properly document the arrangement and possibly avoid confusion in the future.

We would like to compliment the city staff on their preparation for this year's audit. We also appreciate the courtesy and cooperation extended to us by you and members of your City during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

Plante & Moran, PLLC

May 10, 2004